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State Department review completed

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3. MacDonald's policy toward Malayan Chinese criticized:

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General Briggs, who recently retired as Director of Operations in Malaya, sharply criticized Commissioner General MacDonald's "pro-Chinese" domestic policy in an interview with the US Consul in Kuala Lumpur. Briggs is convinced that the Chinese in Malaya will never cooperate voluntarily with the government against the Communist guerrillas. Furthermore,

he feels that MacDonald's conciliatory attitude toward the Chinese permits and encourages aid to the rebels.

Meanwhile, the US Consul in Penang confirms earlier reports of widespread criticism of MacDonald's administration, and submits his personal belief that the Commissioner General's attempt to win the support of the local Chinese through political concessions is a futile one.

Comment: The Chinese are the largest of all the ethnic groups in Malaya, including the Malays. Their support is necessary to stamp out the rebels, who are almost entirely Chinese.

Whether to rely mainly on severity or suasion as a means of obtaining the cooperation of the Chinese has been the perennial problem of the British administration in Malaya. The British Government is now reassessing its policy, which is based on a compromise between the two.

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5. Comment on possible sale of Iranian oil to the Soviet bloc:

Recent speeches of Iranian National Front leaders suggest that the government is preparing the public for the sale of Iranian oil to the Soviet bloc. Nationalist leaders have recently become increasingly insistent that Iran should sell its oil to any available purchaser, and the economic difficulties created in Iran by Britain's sanctions cause further pressure in this direction.

This campaign also represents an effort to force the West into opening its markets to Iran's oil. A National Front paper recently urged that the oil nationalization law be amended to require former customers of AIOC to apply for oil within two weeks or forfeit their right of priority.

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WESTERN EUROPE

6. French Union policy not affected by High Council meeting:

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The first conference of the High Council of the French Union (consisting of a delegation of the French Government and representatives of the Associated States) has ended without clarifying

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either the role of the High Council or the nature of the Union,

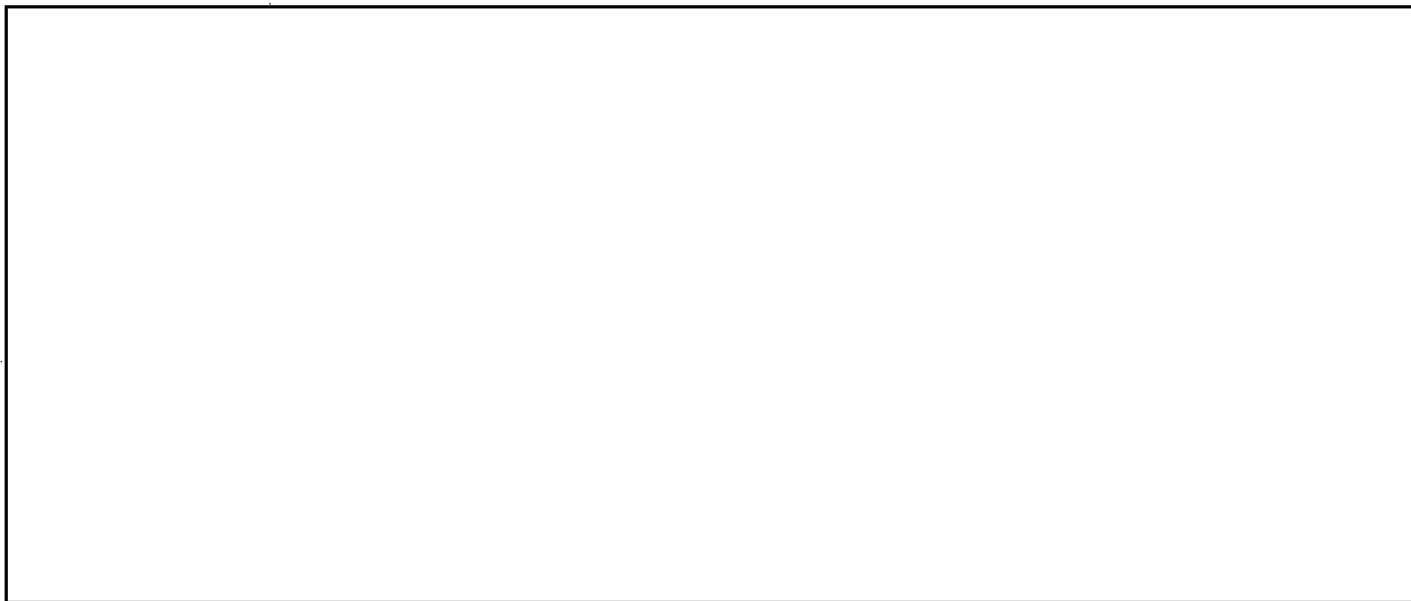


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No change in policy is involved in a High Council communique referring to the possibility of an international conference to end "foreign intervention in Southeast Asia." This statement was meant for domestic consumption as evidence of the French Government's desire to reach a solution and prevent Chinese Communist aggression.

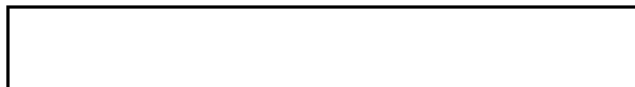
Comment: The need to offset the bad impression that French policy in Indochina and North Africa has made on world opinion probably forced the French to end their procrastination in convening this consultative body.

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